

Entrepreneur Development for Missouri

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This essay responds to the Call for White Papers on the Missouri Strategic Initiative for Economic Growth. It reflects some of the relevant research conducted or sponsored by the Kauffman Foundation on economic growth in general, and entrepreneurship in particular.

Importance of New Firms

As a general framing matter, it is vital that Missouri policy makers be aware of the importance of new firm formation and growth to the growth of the US economy, and by inference, to state and local economies. A series of recent studies have shown that over the nearly three decades until the Great Recession that began in late 2007, new firms were responsible for essentially all net new jobs created in the United States.²

This fact underscores the importance of having policies in Missouri that make it easy for firms to launch and grow in the state. This is especially important because, according to the new firm creation data compiled by the Foundation, Missouri currently ranks very low in firm formation.³

The focus on fostering the creation and growth of new firms also contrasts starkly with the traditional emphasis in state and local development offices in “smokestack chasing” – seeking to attract firms from other states to relocate or to open new offices in a given location, often through special grants or tax incentives. This approach is good for headlines and short-term boosts to local employment and output, but increasingly in our highly competitive, global economy, such strategies do not promise lasting gains. Firms can easily leave for other locations, enticed by other monetary arrangements, lower transport costs, better education for their workers and their families, or any number of other factors.

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² See, e.g. Dane Stangler and Robert E. Litan, “Where Will the Jobs Come From?” Kauffman Foundation, November 2009, http://www.kauffman.org/uploadedFiles/where_will_the_jobs_come_from.pdf; John Haltiwanger, Ron Jarmin, and Javier Miranda, “Jobs Created from Business Startups in the United States,” Kauffman Foundation, January 2009, http://www.kauffman.org/uploadedFiles/BDS_Jobs_Created_011209b.pdf; and Tim Kane, “The Importance of Startups in Job Creation and Job Destruction,” Kauffman Foundation, July 2010, http://www.kauffman.org/uploadedFiles/firm_formation_importance_of_startups.pdf.

³ See Rob Fairlie, “Kauffman Index of Entrepreneurial Activity 1996-2009,” Kauffman Foundation, May 2010, pp. 12-14 http://www.kauffman.org/uploadedfiles/kiea_2010_report.pdf.

As a result, the only sustainable way of ensuring that localities and states have consistent and strong economic growth is to foster the creation of new firms and to help young ones grow to be more established and successful. Once launched, such firms are less likely to leave since their founders and often any external funders have local roots and absent strong reasons to move, such firms won't.

What To Do

Regulatory Streamlining: The place to begin to facilitating the formation of new firms is to ensure that it is easy as possible to do so. We have looked at the State of Missouri government website in this regard, and it is best in class, very user friendly for any business. The open question is whether the same can be said of all of the state's local governments – where most regulatory approvals are required – and bricks-and-mortar business offices of the state and its localities. I suspect not, or at least that the user-friendliness varies a lot.

Here are several ideas for improving matters. First, at the state level, thought should be given to having knowledgeable counselors who can guide businesses and entrepreneurs seeking help with regulatory approvals and licenses. Ideally, if personnel at some of the key offices where most approvals are needed could be physically located in one-stop centers that would be even better. The required personnel could be drawn from the individual agencies.

To encourage localities to make it as easy as possible for entrepreneurs to know about and gain all necessary approvals, the State could hand out the equivalent of "gold star" awards to the localities with the most user friendly websites and the best records in acting on regulatory requests in a timely manner. Perhaps the State could work with a representative number of local governments to establish benchmarks for measuring entrepreneur/business satisfaction with local authorities. Once established, localities can measure themselves against the benchmarks, report the results to the State, and then the State can use those reports to determine which localities deserve the coveted gold stars. The award system would establish incentives for local elected officials to earn these gold stars.

Welcoming Immigrant Entrepreneurs: An abundance of research, some of it supported by Kauffman, has established both that immigrants generally form businesses at higher rates than native-born Americans, and that immigrants are disproportionately responsible for the creation and growth of America's most successful high-tech companies. While Missouri can't solve the national problem that is keeping out many immigrant entrepreneurs who could help our economy, Missouri can do more for itself by welcoming immigrants, especially those with college and advanced degrees, who are most likely to form growing businesses. I suggest that the Governor establish an "Immigrant Entrepreneur's Advisory

Council” to provide suggestions for how the state can market itself to immigrant entrepreneurs or would-be entrepreneurs who are already in this country, as well as how the state can use the networks of its existing entrepreneurs to bring even more successful immigrants to the state. Immigrants who start business create jobs, they don’t take them away from anyone. Immigrant entrepreneurship should thus be welcomed and encouraged.

Connecting Established Companies with Smaller, Entrepreneurial Companies: Successful entrepreneurial ecosystems exist where vibrant new companies are doing business alongside and often with larger businesses, which can be and often are customers, suppliers and possible financiers of their smaller counterparts. It is my experience and understanding that local chambers of commerce – which in theory can provide this connecting function between big and small/new -- primarily consist of established businesses, and that the costs of membership are frequently prohibitive for startups. The State’s Commerce Department should consider ways of bringing the State’s more successful larger enterprises in touch with entrepreneurs and start-up companies, to serve as mentors, and possible sources of business and financing. As a practical matter, this may have to be done at the local level, but state officials can provide important coordination services, and also can be critical to enlisting the participation of the larger companies in these networking activities, which should be formalized and made regular. A jazzy title for the effort, like “Missouri Business Connections: Showing the Way” and a press campaign to advertise it would help.

Encouraging Academic Entrepreneurship: There is a wealth of ideas and potential entrepreneurs among the students and faculty at Missouri’s excellent universities, both public and private. There are some things Missouri can proud of in this regard. In particular, the Kauffman Foundation has just named the University of Missouri System as being one of the three most innovative universities in the country in encouraging entrepreneurship on campus. Missouri was recognized for its recently adopted policy of allowing all students to retain intellectual property rights in ideas they develop and commercialize while enrolled in studies at the university.

Even more could and should be done. All state universities should be encouraged to allow their faculty-inventor-entrepreneurs more freedom to license the technologies they develop while on their job. Existing contracts that govern the split of licensing revenues between such faculty and their university employers would and should remain undisturbed. As I have written with my Kauffman colleague, Lesa Mitchell (Vice President for Advancing Innovation), by taking this suggested step, the state’s universities would be treating faculty inventions no differently than they do their research (which faculty members are free to place anywhere on their own). And most importantly, giving faculty inventors a choice as to how to license their innovations would give the Missouri schools a leg up in competing for the best faculty talent in the country, while

accelerating the pace of commercialization of ideas generated by faculty on Missouri campuses.

If licensing freedom is judged to be too ambitious (or even if it is not), then the State should encourage and/or help its state universities put together panels of successful entrepreneurs in the State who can help the universities' technology transfer offices vet the commercial opportunities of their faculties' (and even their students') innovations. These panels also should be encouraged to use their networks and experience to help those university-based entrepreneurs who pass the "screen" realize the commercial potential of their discoveries.

Missouri's universities and the state's economy would greatly benefit from implementing a program similar or identical to the "Launchpad" program started about two years ago at the University of Miami. Launchpad provides entrepreneurial coaching, mentoring and education through the university's *career office*, rather than through its business school or some other department. In effect, Launchpad legitimizes and facilitates students' choosing *entrepreneurship as a career*. In this way, the career or placement office becomes far more relevant, especially in these difficult economic times when traditional jobs are scarce.

A crucial element in Launchpad's success is that it enlists alumni and local entrepreneurs to provide the mentoring and the connections that assist the students' enterprises. This model is capable of being replicated throughout Missouri, and it is not a minute too soon for the universities in the state to begin doing so.